

WESTERN DEPARTMENT STORES

CLEVELAND PUBLIC LIBRARY
BUSINESS INFORMATION BUREAU
CORPORATION FILE

REPORT to STOCKHOLDERS

January 31, 1946

Stores operated:

OLDS, WORTMAN & KING

Portland
Est. 1851

KAHN'S

Oakland
Est. 1879

RHODES BROTHERS

Tacoma
Est. 1892

WESTERN DEPARTMENT STORES

A California Corporation

Incorporated in 1937

BOARD OF DIRECTORS

HAROLD V. BOGGS

F. R. MCGREW

HERBERT E. CLAYBURGH

JOHN J. REILLY

JOHN J. GOLDBERG

F. A. WICKETT

HARRY A. D. SMITH

OFFICERS

JOHN J. REILLY *President*

HERBERT E. CLAYBURGH *Vice-President*

F. R. MCGREW *Vice-President and Treasurer*

HAROLD V. BOGGS *Vice-President*

HARRY A. D. SMITH *Vice-President*

CECIL L. MARTIN *Vice-President*

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R. L. CHILDS *Assistant Secretary*

A. K. HUMBLE *Assistant Secretary*

H. W. RHEUBOTTOM *Assistant Treasurer*

LEGAL COUNSEL

JESSE H. STEINHART

PUBLIC ACCOUNTANTS

PRICE, WATERHOUSE & Co.

TRANSFER AGENT

THE ANGLO CALIFORNIA NATIONAL BANK
OF SAN FRANCISCO
No. 1 Sansome Street
San Francisco 20, California

REGISTRAR

WELLS FARGO BANK & UNION
TRUST Co.
Montgomery and Market Streets
San Francisco, California

Annual Stockholders Meeting Oakland, California, April 23, 1946, 11:00 o'clock A.M.

Executive Offices 1501 Broadway, Oakland, California (Kahn's Department Store)

Oakland, California
April 1, 1946

To the Stockholders of
WESTERN DEPARTMENT STORES:

Consolidated financial statements for the fiscal year ended January 31, 1946, examined and reported upon by Price, Waterhouse & Co., are submitted herewith.

These statements consist of a consolidated balance sheet and earnings statement of Western Department Stores (operating three department stores: Kahn's, Oakland; Olds, Wortman & King, Portland; and Rhodes Brothers, Tacoma) and Morrison & Tenth Company (the company which holds the lease upon the property occupied by the Portland store).

EARNINGS AND FINANCIAL POSITION

The operating results for the past five years are presented herewith:

Year ending January 31	Sales	Profit before Federal Taxes	Federal Taxes	Net Profit
1946	\$25,345,474	\$3,436,434	\$2,385,000	\$1,051,434
1945	22,765,350	3,296,685	2,425,000	871,685
1944	20,343,490	2,778,556	2,042,000	736,556
1943	15,416,248	1,665,942	1,181,000	484,942
1942	11,388,126	841,774	419,201	422,573

Assuming that all presently outstanding Convertible Preferred stock will be converted into Common shares, the earnings for the year just ended equal \$2.99 per share.

The financial position of the company has been materially strengthened during the past year. The ratio of current assets to current liabilities is 2.7 to 1 and the net working capital at the close of the year is \$3,945,109, an increase of \$1,056,179.

CAPITALIZATION

On January 24, 1946 the stockholders approved an increase in the number of authorized common shares from 200,000 to 600,000 and a reduction of the par value of such shares from \$1.00 each to \$0.50 each, effecting a two for one split-up of the common shares. Subsequent to that date stockholders were requested to exchange their old certificates for certificates representing the new shares and to date over 90% of the shares outstanding have been exchanged. If any stockholders have not made this exchange they are urged to do so immediately so that there will be no confusion regarding their holdings.

On February 21, 1946 the company gave notice to holders of 6% Cumulative Convertible Preferred stock that such shares were called for redemption on May 1, 1946 at the redemption price of \$26.50 per share, plus the quarterly dividend of 37½ cents per share payable on that date. As the value of the common shares into which the holders of the preferred shares had the right to convert was greatly in excess of the redemption price, more than 97% of the preferred shares have been converted into common shares and it is anticipated that the balance of these shares will be converted into common shares by the redemption date.

During October, November and December 1945 holders of \$250,000 principal sum of Five Year Convertible Notes of the company converted said notes into 12,500 shares of Common stock at the rate of five shares of Common stock for each \$100 of principal sum of the notes converted. There

remained outstanding at January 31, 1946 a subscription to \$3,000 principal sum of said notes and in March 1946 the unpaid subscription was paid and this note also was converted, so that at the present time there are no such notes outstanding.

DIVIDENDS

Regular quarterly dividends of $37\frac{1}{2}$ cents per share have been paid on the 6% Cumulative Convertible Preferred stock.

Dividends on Common stock have been paid at the rate of 25 cents per share on April 2, 1945, $37\frac{1}{2}$ cents per share on July 2, 1945, $37\frac{1}{2}$ cents per share on October 1, 1945 and 50 cents per share on January 2, 1946 making a total of \$1.50 per share during the fiscal year. A dividend of 25 cents per share on the new \$0.50 par value shares was paid on April 1, 1946.

RETIREMENT PLAN

Stockholders approved a Profit Sharing Retirement Plan for employees (including officers) of the company who meet the eligibility requirements. The objective of the plan is to provide an income to employees when they reach retirement age (65 years) but it differs from many retirement plans in that the company's contribution is not a fixed obligation but is a designated portion of the company's profits and then only after setting aside a certain portion of the profits for stockholders.

A complete summary of the plan was set forth in the proxy statement mailed to stockholders under date of January 5, 1946.

For the year ended January 31, 1946 the company contributed to this plan the sum of \$182,480.

IMPROVEMENT PROGRAM

The company has definite plans for the improvement of the stores which include escalators, new elevators, re-fixturing, improved lighting, ventilation and many other innovations which not only will greatly improve the appearance of the stores but will produce more efficient operation and make for better customer convenience.

It will take at least two or three years to complete this program but work will proceed as materials and equipment are available.

GENERAL

We are very pleased to welcome back from the armed services our many employees who were on service leave. We are proud that they took their leave of absence to make their contribution to the war effort. These employees were mostly our younger men whom we had expected to develop into our executive staff and we believe their experience in the service should make this development more rapid.

No prognostication can be made for the current year. We are faced with even greater merchandise shortages than in previous years. In addition, more merchandise is received with retail prices fixed by regulations, resulting in considerably less margin of gross profit. On the other hand, operating expenses due to a rise in wages and other costs have increased. However, our organization has faced even more trying conditions in the past, and we have full confidence in their continued determination, loyalty and resourcefulness.

For the Board of Directors.

JOHN J. REILLY,

President

ACCOUNTANTS' REPORT

San Francisco
March 26 1946

To the Board of Directors of

WESTERN DEPARTMENT STORES:

We have examined the consolidated balance sheet of Western Department Stores and its wholly owned subsidiary as of January 31 1946 and the related statement of profit and loss and earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances, and included such tests of the accounting records and other supporting evidence and such other procedures as we considered necessary.

In our opinion, the accompanying statements present fairly the consolidated position of Western Department Stores and its subsidiary at January 31 1946 and the results of their operations for the year in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE, WATERHOUSE & Co.

WESTERN DEPA
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CONSOLIDATED BALANCE
(With comparative figur
(See accompanying notes

ASSETS

	January 31	
	1946	1945
Current Assets:		
Cash in banks and on hand.....	\$2,483,082.80	\$1,494,680.38
United States Government tax notes and excess profits tax refund bonds, at cost.....	19,365.28	
Accounts receivable:		
Customers	\$1,183,959.62	\$1,065,062.28
Sundry	78,611.97	63,089.82
	\$1,262,571.59	\$1,128,152.10
Less—Reserve for doubtful accounts.....	159,683.84	147,392.60
	\$1,102,887.75	\$ 980,759.50
Inventories of merchandise:		
On hand, at or below cost as determined by the retail inventory method	\$2,125,005.08	\$2,018,913.16
In transit, at cost.....	476,826.55	370,425.91
	\$2,601,831.63	\$2,389,339.07
Total current assets	\$6,207,167.46	\$4,864,778.95
Miscellaneous Investments, Deposits and Advances.....	43,625.23	43,772.37
Estimated Post-War Refund of Excess Profits Tax.....		58,000.00
Property Accounts, at Cost:		
Buildings, furniture and equipment, etc.....	\$1,114,642.71	\$1,106,065.74
Leasehold and improvements to leased buildings.....	724,325.33	724,325.33
	\$1,838,968.04	\$1,830,391.07
Less—Reserves for depreciation and amortization.....	1,488,508.69	1,432,221.09
	\$ 350,459.35	\$ 398,169.98
Land (including undivided one-half interest in real estate, \$128,418.21)	201,918.21	73,500.00
	\$ 552,377.56	\$ 471,669.98
Deferred Charges:		
Unexpired insurance, prepaid taxes and other expenses.....	117,938.38	140,088.85
	\$6,921,108.63	\$5,578,310.15

RTMENT STORES

(Corporation)

OWNED SUBSIDIARY

SHEET—JANUARY 31 1946

es as at January 31 1945)

s to financial statements)

LIABILITIES

January 31

1946

1945

Current Liabilities:

Accounts payable, trade	\$1,446,229.60	\$1,086,690.77
Payrolls, taxes and other accrued liabilities	794,466.97	688,982.66
Estimated reserve for Federal taxes on income (Note A)	2,410,000.00	2,475,000.00
Less—United States Treasury Notes, Tax Series C	(2,410,000.00)	(2,300,000.00)
Dividend payable February 1 1946	21,361.23	25,175.40

Total current liabilities \$2,262,057.80 \$1,975,848.83

Employees' Subscriptions to Five Year Convertible Notes (Note B) .. 650.00 4,720.00

Reserve for Contingencies and Post-War Adjustments 500,000.00 500,000.00

Capital Stock and Surplus:

Capital stock (Note C):

6% Cumulative Convertible Preferred, par value \$25 per share:

	1946	1945		
Authorized	67,133	100,000		
Issued	56,287	67,133	\$1,407,175.00	\$1,678,325.00

Common:

At January 31 1946:

Authorized, 600,000 shares, par value \$0.50 per share	
Issued, 238,586 shares	119,293.00

At January 31 1945:

Authorized, 200,000 shares, par value \$1.00 per share	
Issued, 95,947 shares	95,947.00

Capital surplus (Note D) \$1,526,468.00 \$1,774,272.00
497,804.00

Earned surplus since reorganization April 8 1937, per statement attached 2,134,128.83 1,323,469.32

\$4,158,400.83 \$3,097,741.32

Contingent Liabilities (Note E)

\$6,921,108.63 \$5,578,310.15

**WESTERN DEPARTMENT STORES
AND WHOLLY OWNED SUBSIDIARY**

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND EARNED SURPLUS

YEAR ENDING JANUARY 31 1946

(With comparative figures as at January 31 1945)

(See accompanying notes to financial statements)

	1946	1945
Net sales, including leased departments.....	\$25,345,474.55	\$22,765,349.72
Less—Sales of leased departments.....	3,578,015.80	3,147,734.10
	<u>\$21,767,458.75</u>	<u>\$19,617,615.62</u>
Cost of merchandise sold.....	14,177,374.67	12,756,295.22
	<u>\$ 7,590,084.08</u>	<u>\$ 6,861,320.40</u>
Gross profit—own departments	597,764.18	557,146.79
Discounts on purchases	478,959.29	420,116.21
Gross income from leased departments.....	98,940.44	83,196.39
Other income	<u>\$ 8,765,747.99</u>	<u>\$ 7,921,779.79</u>
Selling, general and administrative expenses.....	\$ 5,081,753.24	\$ 4,551,307.13
Contribution to profit sharing retirement plan (Note F).....	182,480.30	
Provision for depreciation and amortization.....	56,287.60	64,525.64
Interest	930.26	8,248.24
Other charges	7,862.37	1,013.02
	<u>\$ 5,329,313.77</u>	<u>\$ 4,625,094.03</u>
Profit before provision for Federal taxes on income.....	\$ 3,436,434.22	\$ 3,296,685.76
Estimated provision for Federal taxes on income (Note A).....	2,385,000.00	2,425,000.00
Profit for year	<u>\$ 1,051,434.22</u>	<u>\$ 871,685.76</u>
Provision for contingencies and post-war adjustments.....		(150,000.00)
Adjustments of reserves and related Federal taxes on income, applicable to prior years	11,264.20	(7,945.45)
Balance of profit to earned surplus.....	\$ 1,062,698.42	\$ 713,740.31
Earned surplus at beginning of year.....	1,323,469.32	1,438,267.51
	<u>\$ 2,386,167.74</u>	<u>\$ 2,152,007.82</u>
Excess of par value of capital stocks issued and cash paid in re-capitalization as of April 3 1944 over par value of capital stocks formerly issued		\$ 344,083.50
Elimination of "Initial deficit"		326,488.33
Excess of redemption price over par value of Special Preferred Stock redeemed		31,684.59
Excess of cost over par value of two shares of Special Preferred Stock purchased and cancelled.....		22.00
Dividends paid or declared (Note G).....	\$ 252,038.91	\$ 126,260.08
	<u>\$ 252,038.91</u>	<u>\$ 828,538.50</u>
Earned surplus at end of year (accumulated since reorganization, April 8 1937).....	<u>\$ 2,134,128.83</u>	<u>\$ 1,323,469.32</u>

WESTERN DEPARTMENT STORES AND WHOLLY OWNED SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS—JANUARY 31 1946

NOTE A:

The estimated reserve for Federal taxes on income is in respect of the following:

Estimated provision for the year ending January 31 1946:		
Excess profits tax.....	\$2,124,000.00	
Income taxes	261,000.00	\$2,385,000.00
		<hr/>
Additional provision with respect to prior years.....		25,000.00
		<hr/>
		<u>\$2,410,000.00</u>

NOTE B:

On September 25 1944, twenty officers and executive employees entered into subscription agreements subscribing to \$259,000 face value of Five Year Convertible Notes, to be issued when the subscription price was received in full at face value and convertible into \$1 par value common stock of the corporation in the ratio of five shares of stock for each \$100 of face value; this conversion ratio was based on the approximate market price of the common stock on the date the subscription agreements were entered into.

During October, November and December 1945, Five Year Convertible Notes in the aggregate face amount of \$250,000 were issued to seventeen of the subscribers and such notes were converted into an aggregate of 12,500 shares of \$1 par value common stock. The market quotations on such common stock during said period ranged approximately from \$35 to \$55 per share.

During the year, subscription agreements for \$6,000 principal amount were cancelled, and at January 31 1946 there remained outstanding one subscription for \$3,000 face amount, on which \$650 had been collected; this subscription was paid in full on March 12 1946, and the note issued in respect thereof was converted into 300 shares of \$0.50 par value common stock.

NOTE C:

Changes during the year in capital stock issued are summarized as follows:

	Shares	Amount
Preferred stock, \$25 par value:		
Issued, January 31 1945	67,133	\$1,678,325.00
Converted into \$1 par value common stock, share for share	(10,846)	(271,150.00)
		<hr/>
Issued, January 31 1946.....	56,287	\$1,407,175.00
		<hr/>
Common stock, \$1 par value:		
Issued, January 31, 1945.....	95,947	\$ 95,947.00
Issued in exchange for preferred stock.....	10,846	10,846.00
Issued on conversion of Five Year Convertible Notes (Note B)	12,500	12,500.00
		<hr/>
	119,293	\$ 119,293.00
Cancelled upon exchange for \$0.50 par value common stock	(119,293)	(119,293.00)
		<hr/>
Issued, January 31 1946.....	None	Nil
		<hr/>
Common stock, \$0.50 par value:		
Issued in exchange for \$1 par value common stock in ratio of two to one	238,586	\$ 119,293.00
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On January 24 1946, the articles of incorporation were amended changing the authorized shares of common stock from 200,000 shares of \$1 par value each to 600,000 shares of \$0.50 par value each, and providing that each share of \$1 par value common stock becomes two shares of \$0.50 par value common stock. As of January 31 1946, the 238,586 shares of \$0.50 par value common stock outstanding were represented by certificates for 1,554 shares of \$0.50 par value and 118,516 shares of \$1 par value which had not as yet been exchanged for certificates aggregating 237,032 shares of \$0.50 par value.

The 6% cumulative convertible preferred stock is convertible into \$0.50 par value common stock, at any time at the option of the holder, in the ratio of two shares of such common stock for each share of preferred stock. The liquidation and redemption value of the preferred stock is \$26.50 per share plus any accumulated and unpaid dividends. On February 21 1946, the corporation called for redemption on May 1 1946 all of its 6% cumulative convertible preferred stock at the redemption price of \$26.50, plus the quarterly dividend of 37½ cents payable on May 1 1936, or an aggregate of \$26.87½ per share.

At January 31 1945, 128 shares of \$0.50 par value common stock were represented by fractional share scrip certificates which are non-voting and are not entitled to dividends.

NOTE D:

The balance of capital surplus at January 31 1946 is represented by the following:

Excess of par value of 6% cumulative convertible preferred stock over par value of \$1 par value common stock issued in exchange therefor (See Note C)	\$260,304.00
Excess of principal amount of Five Year Convertible Notes over par value of \$1 common stock issued therefor (See Notes B and C)....	237,500.00
	<u>\$497,804.00</u>

NOTE E:

Under the provisions of a lease of the Oakland store premises for the period from July 1 1944 to June 30 1965, the corporation has agreed to make extensive improvements and alterations to the premises as soon as practical. It is presently impracticable to estimate the cost of such improvements but they are expected to reach the minimum amount specified, \$750,000; the lessor has agreed to bear the cost of such improvements up to \$450,000.

The corporation has also commenced a program of extensive improvements and alterations to the Portland store premises; the total cost thereof, it is presently estimated, will be approximately \$225,000.

NOTE F:

On January 24 1946, the stockholders approved a profit sharing retirement plan for employees of the corporation effective as of February 1 1945, and the corporation's contribution for the year ending January 31 1946, payable to a bank trustee, has been charged against profit and loss for the year. The plan is subject to the approval of the Commissioner of Internal Revenue.

NOTE G:

Dividends paid or declared in the year ending January 31 1946 were as follows:

6% cumulative convertible preferred stock:		
\$1.12½ per share in cash.....	\$75,526.14	
Declared, payable February 1 1946.....	21,361.23	\$ 96,887.37
		<u>155,151.54</u>
Common stock, \$1 par value—\$1.50 per share in cash...		<u>\$252,038.91</u>



